

San Gorgonio Pass Water Agency

DATE: February 3, 2025

TO: Board of Directors

FROM: Lance Eckhart, General Manager

BY: Emmett Campbell, Senior Water Resources Planner

SUBJECT: Consideration and Approval of a Memorandum of Understanding with the Kern County Water Agency to Identify and Evaluate Possible Arrangements for Collaboration on Water Management to Optimize Allocation of Costs and Benefits

RECOMMENDATION

Authorize the General Manager to execute the Memorandum of Understanding (“MOU”) with the Kern County Water Agency (“KCWA”) to identify and evaluate possible arrangements for collaboration on water management to optimize the allocation of costs and benefits, subject to review of the final version of the MOU by Agency Staff and Legal Counsel.

PREVIOUS CONSIDERATIONS

- No Previous Considerations

BACKGROUND AND ANALYSIS

The San Gorgonio Pass Water Agency (“SGPWA”) is actively investing in various water supply projects to ensure long-term water security. One of these projects is the Delta Conveyance Project (“DCP”), a significant infrastructure initiative designed to enhance the reliability of California’s water supply. The DCP is anticipated to be constructed and operational by 2043.

The California Department of Water Resources (“DWR”) is working with project participants in the planning and design of the DCP. To maintain project momentum, DWR requires additional funding for planning and design through 2027. Each participating State Water Contractor must approve its share of this funding. SGPWA’s Board of Directors authorized its contribution to the 2027 funding tranche in 2024.

However, Kern County Water Agency (“KCWA”), a key State Water Contractor in the Central Valley, has not yet approved its portion of the funding. KCWA’s stakeholders primarily consist of agricultural users, who typically finance water supply projects through revenue generated from crop sales. The cost of the DCP presents a financial challenge for these stakeholders, particularly as they would need to bear the financial burden for nearly two decades before realizing the benefits of the project. Ensuring the affordability of water supply is essential for agricultural participation in the DCP.

Agricultural vs. Municipal & Industrial Water Agencies

Municipal and Industrial (“M&I”) State Water Project (“SWP”) agencies operate under different funding mechanisms compared to agricultural users. Many M&I agencies finance SWP costs through ad valorem taxes or by passing costs directly to ratepayers, providing greater financial flexibility for long-term projects like the DCP. Additionally, M&I users are generally less vulnerable to drought-related revenue fluctuations, unlike farmers whose incomes are closely tied to annual crop yields and commodity prices. M&I agencies often have alternative financial tools to manage water supply investments, whereas farmers face economic constraints in lower water allocation years.

That said, agricultural users have certain advantages in years of abundant imported water. Many farming regions have access to large tracts of land and are located close to major water infrastructure.

The Role of Groundwater Banking

Many KCWA Member Units also have access to key resources that are not typically available to M&I agencies: banking facilities like the Kern Water Bank (“KWB”). The KWB is a large groundwater storage facility within KCWA’s service area that holds millions of acre-feet of water. This groundwater banking system allows for the recharge of aquifers during high SWP allocation years, ensuring additional water availability during dry years.

M&I agencies frequently have surplus water during wet years but lack the infrastructure to store it effectively. KCWA’s ability to move, store and return water for M&I users during dry periods potentially creates a mutually beneficial opportunity. With the completion of the DCP, increased availability of wet-year water will necessitate additional groundwater banking capacity to fully utilize the new supply.

Potential Partnership: MOU Between SGPWA and KCWA

Recognizing these complementary strengths, SGPWA and KCWA have been working on a Memorandum of Understanding (“MOU”) to explore options for optimizing the allocation of costs and benefits between their water portfolios. The primary objectives of the MOU include:

1. Diversifying regional water supplies to reduce reliance on any single source.
2. Enhancing infrastructure for improved water storage, movement, and distribution.
3. Optimizing SWP water supply management through groundwater banking.
4. Developing financial strategies to reinvest in water supply and infrastructure projects.

The MOU is non-binding and simply commits parties to work together in a focused period to explore opportunities together. Discussions with other State Water Contractors about their potential participation in this MOU have taken place, and additional parties may choose to sign on.

Possible Outcomes of the MOU

Potential outcomes of this partnership may include, but are not limited to:

1. Groundwater banking opportunities for M&I SWP agencies.
2. A dry- and wet-year water exchange program, allowing flexibility in managing supply fluctuations.
3. Long-term water lease agreements that improve planning and budgeting for both parties.
4. A coordinated water sales program that maximizes economic and operational efficiencies.

By pooling resources, expertise, and infrastructure, SGPWA and KCWA aim to implement cost-effective, innovative solutions that enhance long-term water reliability for both agricultural and municipal users.

STRATEGIC PLAN NEXUS

The Memorandum of Understanding between KCWA and SGPWA helps advance various aspects of the Agency's Strategic Plan, including:

Strategic Goal 1: Align with the current and future water landscape, supporting the region's long-term needs by diversifying the local supply portfolio and advancing water sustainability.

Objective 1 – Establish relationships and expand collaborative opportunities at the local, regional, state, and federal levels that will enhance the water supply of the region.

Objective 2 – Sustain infrastructure investment to provide a robust regional water distribution and storage system

Strategic Goal 2: Ensure a reliable delivery system that advances efficiency and resiliency.

Objective 1 – Develop additional recharge facilities to support conjunctive use.

Objective 2 – Investigate additional opportunities to increase water storage capabilities

CEQA ANALYSIS

The MOU is not a CEQA "project," because the MOU will not result in any direct or reasonably foreseeable indirect environmental impacts under State CEQA Guidelines § 15378. The MOU does not commit SGPWA and KCWA to the approval of any future water management projects. Any future proposals for water management projects that may be submitted would be subject to the same CEQA review and permitting processes that apply today.

Lastly, the MOU is not subject to CEQA review because it can be seen with certainty that it has no potential to impact the environment under State CEQA Guidelines § 15061(b)(3). The MOU simply involves a framework for collaboration that establishes a pathway for joint exploration of water management solutions.

FISCAL IMPACT

No direct fiscal impact will occur with this MOU, although studies and pilot projects may occur as a result of the collaborative efforts resulting from this MOU.

ACTION

Authorize the General Manager to execute the Memorandum of Understanding with the Kern County Water Agency to identify and evaluate possible arrangements for collaboration on water management to optimize the allocation of costs and benefits, subject to review of the final version of the MOU by Agency Staff and Legal Counsel.

ATTACHMENTS

1. Memorandum of Understanding with the Kern County Water Agency to Identify and Evaluate Possible Arrangements for Collaboration on Water Management to Optimize the Allocation of Costs and Benefits

MEMORANDUM OF UNDERSTANDING

This Memorandum of Understanding (“MOU”) is entered into this _____ day of _____, 2025 (the “Effective Date”) by and between Kern County Water Agency, a water agency of the State of California formed under Chapter 99 of the Water Code Appendix (the “Agency”), and _____ (“Contractors”), with respect to the following facts:

RECITALS

A. The Agency and Contractors are parties to contracts (the “SWP Contracts”) with the State of California Department of Water Resources (“DWR”) to participate in the State Water Resources Development System, also known as the State Water Project.

B. Agency and Contractors desire to cooperate over approximately 18 months to identify and evaluate possible arrangements for collaboration on water management to optimize allocation of costs and benefits, through possible transfers or exchanges of some or all of their respective Table A allocations in order to optimize the allocation of costs and benefits resulting from their State Water Project allocations.

C. Agency and Contractors desire to further consider the potential arrangements specified herein in accordance with the terms and conditions set forth below.

TERMS AND CONDITIONS

Parties signatory to this MOU propose the following Terms and Conditions to implement the optimization of the allocation of costs and benefits.

A. Purpose

a. This MOU is intended to address the long-term needs of State Water Contractors (Contractors) and Kern County Water Agency Member Units (Member Units). The Delta Conveyance Project (“DCP”) entails a large commitment of funds. As such, parties participating in the DCP, as well as others, have the goals of improved cost effectiveness and/or water supply reliability. The purpose of this MOU is to provide a defined period, objectives, and example opportunities to explore agreements to achieve these goals. This MOU is intended to provide an opportunity for Contractors to work directly with the Agency in evaluating larger formal programs and directly with Member Units to evaluate more niche programs to meet more specific needs.

B. Objectives

a. These objectives are to: (1) Reduce regional reliance on any one water source and diversify supplies to enable and enhance flexibility as conditions change;

(2) Improve physical infrastructure, or access to physical infrastructure, to store, move, and share water more flexibly and integrate water management through shared use of resources, science, data, and technology; (3) Optimize and diversify SWP supplies and groundwater banking; and (4) Develop funding opportunities for Member Units that maximize regional resources and provide opportunities to re-invest water supplies and infrastructure.

C. Relationship to the Delta Conveyance Project.

- a. Contractors participating in the planning and construction of the DCP may be signatories to this MOU. Contractors not participating in the planning and construction of the DCP may also be signatories to this MOU.
- b. Any water type can be used in the development of agreements to meet the MOU objectives set forth in Item B, above, including but not limited to water derived from the DCP.

D. Potential Agreements

- a. **Development of Groundwater Banking Opportunities for Contractors Throughout California.** Groundwater banking offers several significant benefits, including enhanced water security by storing excess surface water for future use during droughts and improved aquifer health through managed recharge that can reduce the potential for land subsidence. Banking opportunities may include but are not limited to the following:
 - i. The development of a groundwater bank solely for any particular Contractor.
 - ii. The leasing of groundwater banking capacity for use during wet periods and extraction during dry periods.
 - iii. The use of groundwater banking in an exchange.
 - iv. The development of a groundwater bank dedicated to the participants of the DCP.
- b. **Development of a Dry/Wet Year Water Exchange Program Administered by the Agency.** As the climate changes, swings between wet and dry years are expected to become even more extreme, which means greater fluctuation in the water resources for Contractor imports. A tool to mitigate these unpredictable changes in hydrology are exchanges. These exchanges, which can be structured in a variety of ways, can provide dry year water to those with limited storage and wet year water to those with greater access to storage.
- c. **Long-term Wet Year/Dry Year Exchange of Table A Water or a Combination of DCP and Table A Water – Among Two Parties.** These

exchanges would occur between a particular Contractor and Member Unit. Exchange of Table A water could be limited to a prescribed allocation.

- d. **Coordinated Water Sales Program, in Cooperation with the State of California Department of Water Resources, Resources to Supply the Purchase Program for the Agreements to Support Healthy Rivers and Landscapes.** The Agency, in coordination with some Contractors, could develop and facilitate the short-term transfers program to coordinate same-year transfers for purposes of timing environmental flows.
- e. **Short-term Operational Exchange Program for Operations and Human Health and Safety Purposes.** This program purpose would be to address vital operational needs of Contractors, as well as Human Health and Safety needs for the Department of Water Resources. The program would develop and execute same-year exchanges or transfers of water among users for purposes of operational or safety need.
- f. **Coordinated Water Sales Program Administered by the Agency.** These transfers (i.e. water sales) would occur between the Agency and Contractors or a particular Contractor and Member Units. The Agency, in coordination with participating Contractors and Member Unit, would facilitate the short-term transfers program to coordinate same-year transfers.

F. Nonbinding Nature of this MOU

- a. Nothing in this MOU shall be deemed to a binding agreement in regard to the planning, strategies, and topics as set forth herein. There shall be no binding agreement between the parties on any such planning, strategies and topics unless or until any binding agreement is entered into by and between any of the parties.

IN WITNESS WHEREOF, the parties hereto have executed this MOU as of the day and year indicated below.

AGENCY

Kern County Water Agency

By: _____

Its: _____

Date: _____

CONTRACTORS

By: _____

Its: _____

Date: _____

By: _____

Its: _____

Date: _____

By: _____

Its: _____

Date: _____

DRAFT

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BOARD OF DIRECTORS

FEBRUARY 3, 2025

SGPWA staff has been in discussion with KCWA to develop a water management partnership that are mutually beneficial

- KCWA and SGPWA are both state water contractors and have their own water supply contract with DWR
- Both KCWA and SGPWA have strengths and weaknesses in their respective locations and operations
- There is a desire between KCWA and SGPWA to explore partnership opportunities to increase the flexibility and reliability of the State Water Project
- SGPWA and KCWA staff have developed a draft MOU to further this discussion
- The MOU is a framework to further the collaboration between the agricultural and the municipal/industrial SWP agencies.

The objectives of the MOU are to:

- Diversify regional water supplies.
- Enhance infrastructure for improved water storage and distribution.
- Optimize State Water Project supplies through groundwater banking.
- Develop financial strategies to reinvest in water supply and infrastructure projects.

The MOU is non-binding and simply commits parties to work together in a focused period to explore opportunities together. Discussions with other State Water Contractors about their potential participation in this MOU have taken place, and additional parties may choose to sign on.

Recommendation

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